

Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 PA-01 OES-07 /105 W
-----105458 211100Z /16

R 210922Z FEB 78
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC 7388
INFO AMEMBASSY ALGIERS
AMEMBASSY AMMAN
USINT BAGHDAD
AMEMBASSY BEIRUT
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMEMBASSY DOHA
A/AMEMBASSY JIDDA 1723
AMEMBASSY KHARTOUM
AMEMBASSY KUWAIT
AMEMBASSY MANAMA
AMEMBASSY MOGADISCIO
AMEMBASSY MUSCAT
AMEMBASSY NOUAKCHOTT
AMEMBASSY SANA
AMEMBASSY TRIPOLI
AMEMBASSY RABAT
AMEMBASSY TUNIS
DEPT OF TREASURY WASHDC

C O N F I D E N T I A L ABU DHABI 0481

E.O. 11652: XGDS-2
TAGS: EFIN
SUBJ: ARAB MONETARY FUND DIRECTORS RECOMMEND POLICY GUIDLINES

BEGIN SUMMARY: THE ARAB MONETARY FUND EXECUTIVE DIRECTORS HAVE
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RECOMMENDED TO BOARD OF GOVERNORS THAT THE AMF TERMS AND CON-
DITIONS FOR ASSISTANCE BE SLIGHTLY "HARDER" THAN CORRESPONDING
IMF OPPORTUNITIES. CONTRARY TO SOME EXPECTATIONS, RADICAL
AND DEFICIT STATES DID NOT PRESS FOR "SOFT" TERMS. THE AMF
BOARD OF GOVERNORS WILL MEET IN ABU DHABI APRIL 23 - 25 TO
ESTABLISH DEFINITIVE AMF POLICY AFTER WHICH INITIAL LOANS MAY BE
MADE BY MID-SUMMER 1978. END SUMMARY

1. THE ARAB MONETARY FUND EXECUTIVE DIRECTORS MET FEBRUARY 12 - 15 IN ABU DHABI TO PREPARE THEIR RECOMMENDATIONS ON AMF POLICY GUIDELINES FOR THE AMF BOARD OF GOVERNORS WHO WILL MEET IN ABU DHABI APRIL 23 - 25 TO ESTABLISH DEFINITIVE AMF POLICY. THE DIRECTORS AGREED TO RECOMMEND THAT AMF TERMS AND CONDITIONS FOR LOANS SHOULD BE SLIGHTLY "HARDER" THAN CORRESPONDING IMF OPPORTUNITIES, BUT SIGNIFICANTLY EASIER THAN COMMERCIAL OPTIONS. THIS DECISION WAS STRONGLY BACKED BY SAUDI ARABIA AND KUWAIT, WHO HAD SEVERAL WEEKS PREVIOUSLY TOLD AMF MANAGING DIRECTOR JAWAD HASHIM THAT THEIR SUPVWZ FOR THE AMF WAS PREDICATED ON ITS OPERATING IN A "BUSINESS-LIKE" FASHION (I.E., THE FUND MUST AT LEAST, COVER ITS COSTS). IRAQ ALSO SUPPORTED THIS POSITION FIRMLY. THE DEFICIT COUNTRIES, ALTHOUGH PRESUMABLY PREFERING SOFTER TERMS, DID NOT CHOOSE TO PRESS TO ACHIEVE THEM.

2. THE DIRECTORS WILL MEET AGAIN BEFORE THE APRIL GOVERNOR'S MEETING TO DECIDE, INTER ALIA, ON THEIR RECOMMENDATIONS FOR INTEREST CHARGES WHICH ARE EXPECTED TO BE PEGGED "BARELY" ABOVE IMF LEVELS. THEY DID DECIDE ON PROPOSED CRITERIA FOR ACCESS TO LOANS (OF UP TO SEVEN YEARS DURATION) GIVING FIRST PREFERENCE TO COUNTRIES WHOSE DEFICITS ARE ATTRIBUTED TO INTER-ARAB TRADE. (DEFICITS DUE TO OIL IMPORTS ARE SPECIFICALLY EXCLUDED FROM THIS ACCOUNTING AND NO CONSIDERATION IS PRESENTLY BEING GIVEN TO REVIVAL OF THE OAEPEC SPECIAL OIL FACILITY UNDER AMF CONFIDENTIAL

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AUSPICES.) PREFERENTIAL TREATMENT WILL SIMILARLY BE GIVEN TO COUNTRIES WHOSE EXPORT EARNINGS DECLINE UNEXPECTEDLY DUE TO MARKET OR NATURAL FORCES. A BACKDOOR APPROACH TO DEVELOPMENT PROJECT FINANCING MAY BE AVAILABLE SINCE THE DIRECTOR'S PROPOSED CRITERIA WOULD PERMIT THE AMF EXAMINATION OF A COUNTRY'S ACCOUNTS TO TAKE INTO POSITIVE CONSIDERATION DEFICITS DUE TO "WELL-CONSIDERED DEVELOPMENT PROJECTS."

3. THE AMF EXPECTS THAT EGYPT AND ALGERIA WILL BE ITS FIRST APPLICANTS AFTER THE GOVERNORS MEETING IN APRIL. THIS THEN COULD MEAN LOANS AS EARLY AS JUNE OR JULY. AMF SOURCES POINTED OUT THAT A LARGE INITIAL QUOTA MEANT SIMILARLY LARGE FINANCING POSSIBILITIES AND THAT ALGERIA AND EGYPT EVIDENTLY PLANNED TO TAKE ADVANTAGE OF THEIR LARGE QUOTAS. ALGERIA'S QUOTA IS AS LARGE AS SAUDI ARABIA'S AT 38 MILLION ARAB DINARS (ONE ARAB DINAR - 3 SDRS) WHILE EGYPT'S IS 25 MILLION ARAB DINARS, THE SAME AS KUWAIT'S.

4. NO COUNTRY IS CONSIDERED TO BE A PARTICIPATING MEMBER UNTIL ITS SUBSCRIPTION IS PAID IN. IN THIS CONTEXT, AMF SOURCES NOTED THAT SUDAN, ALTHOUGH FACED WITH SERIOUS BOP DIFFICULTIES, HAD NOT YET PAID IN ITS \$10 MILLION ARAB DINAR SUBSCRIPTION AND

THUS COULD NOT AVAIL ITSELF OF THE AMF'S FACILITIES (WHICH INCLUDE THE RIGHT TO DRAW EASILY AGAINST 75 PERCENT OF THE QUOTA) AND ON INCREASINGLY DIFFICULT TERMS UP TO 400 PERCENT OF THE QUOTA IN EXCEPTIONAL CASES. THEY SAID THAT A REMINDER ABOUT THE SUDAN'S NON-ELIGIBILITY BECAUSE OF NON-PAYMENT HAD BEEN PASSED TO AN ASSOCIATE OF PRESIDENT NUMAIRI BY JAWAD HASHIM RECENTLY.

5. COMMENT: THIS EXECUTIVE DIRECTOR'S MEETING MARKS THE AMF'S FIRST VENTURE INTO THE NITTY-GRITTY OF PRACTICAL AFFAIRS. PUTTING ASIDE PLATITUDES AND HOUSEKEEPING QUESTIONS WHICH PREVIOUSLY PREDOMINATED, THE AMF WAS ABLE TO ADDRESS POTENTIALLY DIVISIVE ISSUES IN A RELATIVELY HARMONIOUS, CONSTRUCTIVE MANNER. ALTHOUGH LEFTIST OR DEFICIT STATES IN ONE COALITION
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OR ANOTHER COULD IN THEORY OBTAIN A MAJORITY OF VOTES, THEY HAVE SHOWN NO DISPOSITION TO CONTEST SAUDI/KUWAITI DOMINANCE. IN DOING SO, THEY SHOW GOOD JUDGEMENT BECAUSE THEIR LONG-RUN HOPES FOR ASSISTANCE FROM THE AMF DEPEND ON BUILDING OIL-RICH STATES' CONFIDENCE IN THE INSTITUTION. IF THAT OCCURS, ITS CAPITAL WHICH NOW IS ABOUT \$860 MILLION (WITH \$300 MILLION PAID IN) STANDS A GOOD CHANCE TO BE GREATLY INCREASED.

6. WORD ON TAX EXEMPT STATUS OF ANY AMF ASSETS INVESTED IN U.S. WOULD BE HELPFUL FOR ITS BOARD OF DIRECTORS IN FORMULATING FUND'S INVESTMENT POLICY PRIOR APRIL BOARD OF GOVERNOR'S MEETING. LACK OF USG DECISION ON THIS SUBJECT IS HANDICAPPING BOTH AMF AND OUR OWN INTEREST IN INCREASED FOREIGN INVESTMENT IN U.S.
DICKMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC ASSISTANCE, MEETING PROCEEDINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ABUDH00481
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X2
Errors: N/A
Expiration:
Film Number: D780077-1044
Format: TEL
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780235/aaaabdr.tel
Line Count: 151
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 851161d3-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3542035
Secure: OPEN
Status: NATIVE
Subject: ARAB MONETARY FUND DIRECTORS RECOMMEND POLICY GUIDELINES BEGIN SUMMARY: THE ARAB MONETARY FUND EXECUTIVE DIRECTORS HAVE CONFIDENTIAL
TAGS: EFIN, XF, TC, AMF
To: STATE
Type: TE
vdkgvwkey: odbcr://SAS/SAS.dbo.SAS_Docs/851161d3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014